

# Audit Update Report

London Borough of Hackney –  
Accounts year ending 31 March 2021

12 April 2022



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12 April 2022

Dear Committee Members

## **Audit Update Report – Hackney's accounts year ending 31 March 2021**

We are pleased to present an Audit Update Report for the audit of the Council's accounts year ending 31 March 2021. At the date of this report our audit remains in progress and we anticipate completing audit testing by the end of April. Our final conclusion and reporting is subject to the resolution of a national issue relating to the accounting of infrastructure assets. We will aim to issue a formal Audit Completion Report and the audit opinion as soon as possible thereafter. We note in section 01 the current status of the audit and issues that are currently impacting on our ability to issue the audit opinion.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 5 January 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07977 261873.

Yours faithfully

Suresh Patel

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# 01

Section 01:

**Status of the audit**

# 1. Status of the audit

At the date of this report there remains audit testing in progress, audit testing that is subject to internal review which includes the Engagement Lead and Engagement Quality Control Reviewer (EQCR) completing their respective reviews of audit work.

## Audit testing complete but subject to internal review

• Housing Revenue Account	• Review of posted journals	• HRA	• Long term liabilities	• Pensions
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## Audit testing in progress

The majority of the audit testing in progress relates to where we are reviewing and confirming the evidence received from the Council to support sampled items we have selected.

• Movement in reserves statement	• Payroll	• PPE valuations	• Investment property valuations	• Debtors
• Debtors provisions	• Income and Expenditure testing	• Cash & Bank	• Leases	• Reserves
• Collection Fund	• Provisions			

We will update the Audit Committee on the status of the audit.







In addition to the above, as expected, at the date of this report we have yet to complete our concluding audit procedures.

## National issue

In late February 2022 a national issue has arisen in respect of the accounting treatment of highways infrastructure assets. In short, there is a risk that the majority of councils with highways assets (including Hackney) have been overstating the gross cost and accumulated depreciation (in note 13 of the accounts) by material sums for several years. The issue is currently being discussed by CIPFA, the NAO and technical representatives of audit firms. Until this matter is resolved we, like all other firms auditing councils, are pausing issuing any audit opinions on council accounts with material highways assets.

# 1. Status of the audit

## Summary

Audit area	Status	Description of the outstanding matters
Property, plant and equipment and Investment Property valuation testing		Our work on land and building valuations, in particular review of the information being provided by the Council's valuer, and the impact of valuations not completed on a 5 year cycle, is in progress.
Revenue grants, Payroll, Debtors and Creditors		We are awaiting final pieces of supporting evidence from management (invoices, payslips, etc.) for the remaining samples selected for testing in respect of revenue grants, payroll, debtor and creditor samples.
Collection fund NNDR bad debt provision		We are continuing to review and internally evaluate the available data to conclude on our assessment of the provision in respect of NNDR debt.
Events after the reporting period		Review of events after the reporting period, up to the point at which we sign our audit report.
Final review procedures		We are currently completing our file review. We cannot complete our closure procedures until all outstanding points are resolved and the revised accounts are received.
File closure procedures		Following completion of our review process , we will need to complete our file closedown procedures, including receipt of communications from management and consideration of post balance sheet events up to the date of final sign-off.
Whole of Government Accounts (WGA)		Our work on the WGA return will take place later in the year once we have received the appropriate guidance from the NAO.

## Auditor assessment of potential impact



Likely to result in material adjustment or significant change to disclosures within the financial statements.



Potential to result in material adjustment or significant change to disclosures within the financial statements.



Not considered likely to result in material adjustment or change to disclosures within the financial statements.

# 02

Section 02:

**Significant findings to date**

# 2. Significant findings to date

In this section we outline the significant findings from to date our audit, including:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and
- Any internal control issues identified.

## Significant risks

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<b>Management override of controls</b>	<b>Description of the risk</b>
	Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	<hr/> <b>How we addressed this risk</b>
	<ul style="list-style-type: none"><li>• Testing accounting estimates impacting amounts included in the financial statements;</li><li>• Considering any identified significant transactions outside the normal course of business; and</li><li>• Testing a sample of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>
	<hr/> <b>Audit conclusion</b>
	As noted, our work in this area is in progress but to date there have been no significant findings arising from our review of management override. We will update the Committee further on 20 April.

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# 2. Significant findings to date

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**Property, plant and equipment valuation****Description of the risk**

The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five year cycle, and may result in individual assets not being revalued for several years. This creates a risk that the carrying value of those assets that have not been revalued in year is materially different from the year end fair value.

In respect of Council Dwellings, these are reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group. The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by government.

Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.

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**How we addressed this risk**

We addressed this risk by reviewing the approach adopted by the Council to assess the risk that assets not subject to valuation at year end are not materially misstated, and considered the robustness of that approach. We also assessed the risk of the valuation changing materially in year, considering the movement in market indices between revaluation dates and the year end, in order to determine whether these indicate that fair values have moved materially.

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In addition, for a sample of those assets which had been revalued during the year we:

- assessed the valuer’s qualifications;
- assessed the valuer’s objectivity and independence;
- reviewed the methodology used; and
- performed testing of the associated underlying data and assumptions.

We also followed up on recommendations made during the 2019/20 audit regarding PPE valuations.

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**Audit conclusion**

Our work to date on revaluations is in progress. We are continuing to liaise with the Council and its valuer and are awaiting some further evidence to support individual valuations. We will provide an update to the Audit Committee at the meeting.

As noted, our work in this area is in progress but to date there have been no significant findings arising from our audit procedures to review the Council’s revaluation of its PPE. We will update the Committee further on 20 April.

Note 4 of the Council’s accounts currently discloses that there is a material valuation uncertainty included in the valuation report. We have confirmed from our work that no such uncertainty has been included and requested that the council remove the disclosure from its financial statements.

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# 2. Significant findings to date

<b>Net defined benefit pension scheme liability valuation</b>	<b>Description of the management judgement</b>
	<p>The latest triennial valuation of the Hackney Pension Fund was completed as at 31 March 2019. As an admitted body within each fund, the valuation also provides the basis of the associated net pension liability for the Council as at 31 March 2021.</p> <p>The valuation of the Council's net liabilities includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council's employees and other appropriate data.</p> <p>Due to the high degree of estimation uncertainty associated with the valuations, we have determined there is a significant risk in this area.</p> <hr/> <p><b>How our audit addressed this area of management judgement</b></p> <p>As the Council is the Fund administrator, we have addressed this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary, Hymans Robertson.</p> <p>We have also:</p> <ul style="list-style-type: none"><li>• assessed the skill, competence and experience of the Fund's actuary;</li><li>• challenged the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation; and</li><li>• carried out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation.</li></ul>

<b>Audit conclusion</b>
Subject to final review of the work completed we have no significant findings arising from our audit procedures to review the defined benefit pension scheme liability valuation.

# 2. Significant findings to date

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<b>Investment property valuation</b>	<b>Description of the risk</b> <p>The CIPFA Code requires that the carrying value of investment properties should reflect fair value. For the Council's £199m of investment properties this is using market value. Due to the high degree of estimation uncertainty associated with market valuations and the issues we reported in the prior year, we have determined there is a significant risk in this area.</p>
	<b>How we addressed this risk</b> <p>We reviewed the Council's approach to revaluing its investment property portfolio as at 31 March 2021. For a sample of those assets which had been revalued during the year we engaged our own expert to :</p> <ul style="list-style-type: none"><li>• assess the valuer's qualifications;</li><li>• assess the valuer's objectivity and independence;</li><li>• review the methodology used; and</li><li>• perform testing of the associated underlying data and assumptions.</li></ul> <p>We also followed up the recommendations made during the 2019/20 audit regarding investment property valuations.</p>

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<b>Audit conclusion</b> <p>Our work to date on revaluations is in progress. We are continuing to liaise with the Council and its valuer and are awaiting some further evidence to support individual valuations. We will provide an update to the Audit Committee at the meeting.</p> <p>We are currently liaising with the valuer regarding the classification of one item of investment property. We will update the Committee further on 20 April.</p>
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# 2. Significant findings to date

Collection Fund estimates	Description of the risk
	<p>The cyber attack in October 2020 significantly impacted the Academy system which provides the Council with information to prepare the Collection Fund. Although the method and principles remain consistent with prior years, the loss of data from Academy and the recovery actions that are still in progress mean that the Council has been required to make more material estimates in the Collection Fund. As a result we determined that the material estimation within the Collection Fund represents a significant audit risk.</p>
	<b>How we addressed this risk</b>
	<p>We reviewed the estimation techniques used by officers to derive the material estimates within the Collection Fund. We considered the revised requirements of the auditing standard in respect of accounting estimates and sought to:</p> <ul style="list-style-type: none"><li>• Understand and document the estimation methods applied;</li><li>• Consider and challenge the appropriateness of the data used;</li><li>• Consider and challenge the reasonableness of assumptions made; and</li><li>• Apply professional scepticism to the above.</li></ul>

Audit conclusion
<p>We have completed our review of the estimates used by the Council in respect of the Council Tax and NNDR balances within the accounts.</p>
<p>The Council has made assumptions around the future recoverability of outstanding amounts at year end as a result of both the pandemic and the cyber attack. This has resulted in an increase in the impairment loss being set against outstanding balances for both NNDR and Council Tax.</p>
<p>As part of the audit we have reviewed and challenged the assumptions made by the Council in setting the level of impairments in respect of these debts. Whilst these amounts are estimates, they should be supported by available evidence and analysis to support the assessment.</p>
<p>We have noted that the pandemic and cyber attack have both impacted on the recovery rates achieved for the values of NNDR and Council tax outstanding from prior years, with the Council being able to complete minimal recovery of the older debt. However, the significant increase in the impairment assessed for NNDR from 15% to 65% does not appear to be appropriately supported by suitable information. The small increase in respect of council tax is broadly in line with available information.</p>
<p>We are continuing to discuss the assessment with the Council and will provide a more detailed update to the Committee.</p>

# 2. Significant findings to date

<b>Housing benefit expenditure</b>	<b>Description of the risk</b> <p>The cyber attack in October 2020 significantly impacted the Academy system which provides the Council with information to assess housing benefit expenditure. Although the method and principles remain consistent with prior years, the loss of data from Academy and the recovery actions that are still in progress mean that the Council has been required to make more material estimates. As a result we determined that the material estimation within Housing benefit expenditure is a significant audit risk.</p>
	<b>How we addressed this risk</b> <p>We reviewed the estimation techniques used by officers to derive the material estimates of housing benefit expenditure. We considered the revised requirements of the auditing standard in respect of accounting estimates and sought to:</p> <ul style="list-style-type: none"><li>• Understand and document the estimation methods applied;</li><li>• Consider and challenge the appropriateness of the data used;</li><li>• Consider and challenge the reasonableness of assumptions made; and</li><li>• Apply professional scepticism to the above.</li></ul>

<b>Audit conclusion</b> <p>We have completed our review of the estimates made by the Council in respect of the Housing Benefit expenditure included within the financial statements. We have assessed the approach to the assessment, and the use of available information from prior to the cyber attack to support the value of payments made in the remainder of the year.</p> <p>The Council has been unable to process the majority of the expected changes to records, which has impacted on its ability to assess the value of any overpayments made and potential recovery. This assessment is being completed as the system is brought up to date.</p> <p>Entries within the financial statements have been based on payments made to date and an updated analysis as far as it is available. We have reviewed the entries within the financial statements and consider the entries to be reasonable.</p> <p>While our work is subject to ongoing internal review, we have no issues to bring to the attention of the Committee at this time.</p>
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# 2. Significant findings to date

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<b>Housing Revenue Account</b>	<b>Description of the risk</b> <p>The cyber attack in October 2020 impacted the Universal Housing system which provides the Council with information to prepare the HRA. Whilst we are aware that the Council is replacing the UH system and has been able to recover information there remains an increase in the extent of estimation used in preparing the HRA. As a result we have determined that the material estimation within the HRA represents a significant audit risk.</p>
	<b>How we addressed this risk</b> <p>We reviewed the estimation techniques used by officers to derive the material estimates within the HRA. We considered the revised requirements of the auditing standard in respect of accounting estimates and sought to:</p> <ul style="list-style-type: none"><li>• Understand and document the estimation methods applied;</li><li>• Consider and challenge the appropriateness of the data used;</li><li>• Consider and challenge the reasonableness of assumptions made; and</li><li>• Apply professional scepticism to the above.</li></ul>

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<b>Audit conclusion</b> <p>We have completed our review of the estimate made by the Council in respect of the Housing rent information included within the financial statements, and in particular the value of the rental income recorded within the financial statements.</p> <p>The Council has made use of data from immediately prior to the cyber attack as the basis for assessing income across the remainder of the year, reconciling this with the value of receipts to confirm the details included within the financial statements. We have reviewed the assessments completed and consider them to be reasonable.</p> <p>While our work is subject to ongoing internal review, we have no issues to bring to the attention of the Committee.</p>
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## 2. Significant findings to date

### Key areas of management judgement

<b>Grant accounting</b>	<b>Description of the management judgement</b> <p>In common with other councils, the Council received a significant level of Covid-19 related government grants during the financial year. Some of these grants have specific conditions for their use and others the Council has discretion on its use. As a result, the Council had to make a judgement on how it accounts for each type of grant and in particular a judgement on whether the Council is acting as the principal (which impacts the Councils accounts) or agent (which has less of a financial reporting impact) in respect of each grant.</p>
	<b>How our audit addressed this area of management judgement</b> <p>We reviewed the Council's approach to considering the terms and conditions associated with each of the grants received, and its associated proposals for accounting, ensuring these accounting proposals were in line with the requirement as set out in the CIPFA Code.</p>
	<b>Audit conclusion</b> <p>Our work in this area is in progress but to date there have been no significant findings arising from our audit procedures to review grant accounting. We will update the Committee on 20 April.</p>

<b>Bank Reconciliation</b>	<b>Description of the management judgement</b> <p>Our final report to those charged with governance on the 2019/20 audits, identified internal control recommendations regarding the bank reconciliation.</p> <p>Given the complexity of the process, the risk of human error in manual transactions and the importance of controls operating effectively over cash, we have identified an enhanced risk in this area.</p>
	<b>How our audit addressed this area of management judgement</b> <ul style="list-style-type: none"><li>• Follow up of the agreed recommendations from the 2019/20 audit;</li><li>• Review of the processes and controls in place for documenting the bank reconciliation, ensuring there is a clear trail of how the bank balance ties back to the Council's ledger; and</li><li>• Substantively testing the balances per the bank statement and the ledger and confirm reconciling items have been appropriately accounted for.</li></ul>
	<b>Audit conclusion</b> <p>Our work in this area is subject to final internal review but to date there are no significant findings arising from our review of the bank reconciliation process. We will update the Committee on 20 April.</p>

## 2. Significant findings to date

### Qualitative aspects of the Authority's accounting practices

We have reviewed the Authority's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Authority's circumstances. The accounts have been prepared on a going concern basis and we have not identified any reasons why this would not be appropriate or any material uncertainties that the Council would be required to disclose.

Draft accounts were provided by the authority on 6 December 2021 and were of a good quality. Supporting working papers were made available prior to the commencement of the audit. Staff members were generally timely in response to evidence requests and audit enquiries.

### Internal control matters

To date we have identified one matter that we wish to bring to the Committee's attention. During our review of the related party disclosures within the financial statements, we noted that the Council had not obtained declarations of interest forms from two Members. Whilst we have satisfied ourselves through other procedures that there are no interests that warrant disclosure, the Council needs to ensure that it has sufficient evidence to support the completeness of its own disclosures.

### Significant matters discussed with management

We have discussed the following significant matters with management:

- The impact of covid-19 on the council and the associated impacts this may have on the risks of material misstatement to the valuation of property, plant and equipment, the assessed provision for expected credit losses and the potential overall impact on the council's financial position.
- Going concern and the basis of management's assessment of its current position. We have reviewed management's initial assessment and considered this against budget forecasts and cabinet finance papers to support the judgement.

- The continued impact of the cyber attack suffered by the council on its operations and ability to provide support for figures within the financial statements.
- Amendment to the Council's prior year Cash Flow Statement and disclosures to adjust for an item incorrectly recorded within the 2019/20 financial statements.

### Significant difficulties during the audit

During the course of the audit, we did not encounter any significant difficulties and we have had the full co-operation of management.

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

To date we have not exercised any of these powers as part of our 2020/21 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have not received any objections for 2020/21.

### Modifications required to our audit report

To date we have not identified any issues which would result in us proposing to issue a modified audit opinion.

Executive summary

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misstatements

Value for Money

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# 03

Section 03:

**Value for Money**

# 3. Value for Money

## Approach to Value for Money (VFM)

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

## VFM risk assessment

We have now completed our VFM risk assessment. We have drawn on our understanding of the Council's VFM arrangements from prior year work, updated based on discussions with officers and

review of updated policies and procedures. We have also reviewed papers from the Council's Cabinet and other relevant committees. We have not identified a risk of significant weakness for 2020/21.

## Consideration of the Cyber Attack

We have considered the impact of the October 2020 cyber attack on our VFM risk assessment. We have reviewed our December 2021 Cyber Impact Assessment report and considered the findings and conclusions. On this basis, we are satisfied that there are no risks of significant weakness in the Council's VFM arrangements arising from the cyber attack.

## Reporting

Our work remains in progress and to date we have not identified any significant weaknesses in the arrangements that have required us to make a recommendation.

As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report in June.

# 04

Section 03:

**Independence and fees**

# Section 03: Independence & fees

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors. We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

## Audit fees

We have reflected in the table below our estimate of the impact on scale fees set by PSAA of changes in the scope of our work arising from the new NAO Code, revisions to auditing standards and increased regulatory requirements. We will quantify our final fees on conclusion of the audit, provide supporting information and seek agreement with the Group Director Finance and Corporate Resources and then approval by PSAA.

## Notes

1. The 2020 NAO Code has increased the work required to understand the Council's VFM arrangements, assess the risk of significant weaknesses and prepare a VFM commentary. This work is in progress and the additional fee will fall within the range established by PSAA.
2. The auditing standard in respect of auditing accounting estimates (ISA 540) was revised requiring auditors to carry out enhanced risk assessment procedures and increasing the focus on professional scepticism. We have used the minimum additional fee published by PSAA for the bottom of our range and the upper end takes into account the risks we have identified.
3. The additional time taken to deal with correspondence from the public and responding to objections results in additional fees. When we have completed our work on certifying outstanding audit years we will quantify the additional time and audit fee.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Code Audit Work (Scale fee)	£174,266	£174,266
Fee variations:	-	-
- VFM Code requirements (note 1)	£11,500	-
- ISA 540 (revised) accounting estimates (note 2)	£10,000-18,000	-
- Correspondence / objections (note 3)	TBC	-
- Regulatory requirements	£5,225	£5,075
- Group accounts	£5,200	£5,062
- Valuation expert	£3,600	£6,016
- Cyber attack assurance report	n/a	£10,085
- Impact of Covid-19	n/a	£4,512
<b>TOTALS</b>	TBC	£205,016

# Suresh Patel, Partner

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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